

**CLERK OF THE CIRCUIT COURT
OF THE COUNTY OF WASHINGTON**

**REPORT ON AUDIT
FOR THE PERIOD
JANUARY 1, 2005 THROUGH DECEMBER 31, 2005**



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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295

Richmond, Virginia 23218

Walter J. Kucharski, Auditor

March 29, 2006

The Honorable Kathy P. Crane
Clerk of the Circuit Court
County of Washington

Board of Supervisors
County of Washington

We have audited the cash receipts and disbursements of the Clerk of the Circuit Court of the County of Washington for the period January 1, 2005 through December 31, 2005.

Our primary objectives were to test the accuracy of financial transactions recorded on the Court's financial management system; evaluate the Court's internal controls; and test its compliance with significant state laws, regulations, and policies. However, our audit was more limited than would be necessary to provide assurance on the internal controls or on overall compliance with applicable laws, regulations, and policies.

Court management has responsibility for establishing and maintaining internal controls and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal controls or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal controls, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

The results of our tests found the Court properly stated, in all material respects, the amounts recorded and reported in the financial management system.

However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions. A reportable condition involves a matter coming to our attention relating to a deficiency in the design or operation of internal controls that, in our judgment, could reasonably lead to the loss of revenues or assets, or otherwise compromise fiscal accountability. The reportable conditions are discussed in the section titled “Internal Control and Compliance Findings and Auditor’s Recommendations.”

We do not believe these conditions are material weaknesses. A material weakness is a significant deficiency in the design or operation of internal controls that, in our judgment, could reasonably lead to the loss of revenues or assets, or otherwise compromise fiscal accountability and go undetected.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that is required to be reported. These instances of noncompliance are discussed in the section entitled “Internal Control and Compliance Findings and Auditor Recommendations.”

We discussed these comments with the Clerk and we acknowledge the cooperation extended to us by the court during this engagement.

AUDITOR OF PUBLIC ACCOUNTS

WJK:sks

cc: The Honorable C. Randall Lowe, Chief Judge
Mark K. Reeter, County Administrator
Bruce Haynes, Executive Secretary
Compensation Board
Paul Delosh, Director of Technical Assistance
Supreme Court of Virginia
Director, Admin and Public Records
Department of Accounts

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND AUDITOR'S RECOMMENDATIONS

The following findings are reportable internal control matters that could lead to the loss of revenues, assets, or otherwise compromise the Clerk's fiscal accountability. The Clerk's response and written corrective action plan to remediate these findings are included as an enclosure to this report.

Improve Court Management

The Clerk and her staff failed to follow Supreme Court's standard procedures, which resulted in internal control and financial management weaknesses. We noted the following conditions:

Properly Reconcile Bank Account

In the eleven months between February 2005 and December 2005, the Clerk has not reconciled the monthly bank statements to the Court's automated financial system as required by the Financial Management User's Guide and sound business practices. Reconciling the bank account monthly is a fundamental internal control.

Failing to properly reconcile and correct differences could result in errors or irregularities going undetected. The Clerk should reconcile the Court's bank account monthly and promptly investigate and resolve differences between the bank statement, checkbook, and the automated system.

Properly Assess Criminal Fees

As noted in the previous audit, the Clerk and her staff did not properly assess fees in criminal cases in accordance with the Code of Virginia. In eight of 20 criminal cases tested, we found numerous assessment errors totaling \$3,385.

The Clerk should train the staff to properly assess court costs and fees by using the Supreme Court's current fee schedules and when practical, attending their periodic regional training meetings. The Clerk should ensure that all court costs and fees are assessed and collected in accordance with the Code of Virginia.

Perform Daily Financial Procedures

The Clerk and her staff did not perform daily financial closing procedures as required by the Financial Management System User's Guide. Specifically, we found the following:

- The Clerk delayed reviewing the daily financial reports up to 90 days after the reports print.
- In three of 15 void receipts tested, court staff failed to document void receipts on the daily cash reconciliation worksheet.
- In six of 19 manual receipts tested, court staff failed to document the use of manual receipts on the register receipt number summary.

The Clerk and her staff should review Financial Management System User's Guide to ensure they are following proper accounting procedures. Failing to perform these daily accounting functions could lead to a misappropriation of funds and loss of revenue to the Commonwealth and locality.

Improve Accounts Receivable Management

The Clerk and her staff could not provide supporting documentation for payment due dates in nine of 20 cases tested. If defendants cannot pay fines and court costs within 15 days of sentencing, Section 19.2-354 of the Code of Virginia requires a court order or payment agreement. Improper due dates for individual accounts hinder collection efforts and could also result in loss of revenue for both the Commonwealth and the locality.

In addition, the Clerk did not review and retain the monthly on request accounts receivable report as required by the Financial Management System User Guide, section 7-13-1. Failure to review these reports could result in inaccurate reporting and lost revenues to the Commonwealth.

Properly Manage Liability Accounts

We found an account error, which understated the balance by \$42,532 since March 2005, because the Clerk had not properly reconciled the liability accounts. Without an adequate reconciliation process, the Clerk cannot ensure proper monitoring and payout of liability accounts. The Clerk should ensure she and her staff review and understand the reconciliation procedures as outlined in the Financial Management System User's Guide.

In addition, the Clerk did not accurately report unclaimed property and unclaimed restitution in 2005 as required by sections 19.2-305.1(E) and 55-210.9:2 Code of Virginia. Specifically, we found the Clerk had incorrectly reported \$35 to the Division of Unclaimed Property and \$575 to the Criminal Injuries Compensation Fund. The Clerk should file an amended annual report and contact the appropriate agencies to correct the errors.

CLERK
Kathy P. Crane

COUNTY OF WASHINGTON
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April 6, 2006

Marsha M. Tedesco, Audit Manager
Judicial Systems Specialty
Office of the Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23218-1295

Dear Ms. Tedesco:

Re: Draft Report

Pursuant to Item 66, paragraph I. of the 2004 Appropriations Act, I am submitting my corrective plan for the Internal Control and Compliance Findings with regard to my recent audit. I am also setting out some explanation as to those findings.

I have checked the online FMS Manual to assure that we have the latest updates in our hard copy notebook. The last update was October 2003 except for Appendix K which was revised in January 2004 and we do have an up-to-date manual.

My accounting technician and I reviewed every finding in the draft report and have discussed ways to correct the problems set out.

Properly Reconcile Bank Account. The person primarily responsible for assessing criminal fees, or someone from this office, will continue to attend all User Meetings in an effort to be fully informed as to all current fees. We We will take advantage of the FMS User's Guide when a question arises. I have discussed this matter with my accounting clerk and am not sure why the errors occurred. The only explanation I can give is that unless

Properly Assess Criminal Fees. The past year was the first full year the accounting clerk has worked in this position. She does utilize the guidelines provided for assessing criminal fees. On days when there are several cases scheduled, it sometimes becomes hectic in the area where she works. In the future, she will use a room where she can meet with the defendants privately to assess fees and we hope this will eliminate some of the confusion and enable her to concentrate more fully. She has and will continue to attend all training available.

Marsha M. Tedesco

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Properly Assess Criminal Fees. The past year was the first full year the accounting clerk has worked in this position. She does utilize the guidelines provided for assessing criminal fees. On days when there are several cases scheduled, it sometimes becomes hectic in the area where she works. In the future, she will use a room where she can meet with the defendants privately to assess fees and we hope this will eliminate some of the confusion and enable her to concentrate more fully. She has and will continue to attend all training available.

Perform Daily Financial Procedures.

Actually, I did not delay reviewing the daily financial reports up to 90 days. The reports were reviewed, but weren't signed because the liabilities account did not balance. After a while, I decided we had better go ahead and sign that the deposits were correct and that the system and checkbook balances were the same. I try to review and sign these reports at least weekly.

The accounting clerk does not remember anything specific being said about the void receipts. However, I don't see how we could have balanced if the void receipts were not shown on the daily cash reconciliation worksheets. We will assure that these are listed.

Even though the manual receipts may not have been listed on the register receipt number summary, the actual manual receipts were taped to the end of the daily report and available for inspection. We will list these on the summary in the future.

Improve Accounts Receivable Management.

The accounting clerk has started using the end of a defendant's probation period as the due date. Unless otherwise ordered, costs are to be paid at the rate of \$50 per month (beginning within 30 days of order entry or within 60 days of release from incarceration). This is included in the court orders. The system will now automatically figure due dates.

I do review and have retained the monthly on request accounts receivable reports.

Properly Manage Liability Accounts

Although the liability accounts balance shown on the system is incorrect, it is readily evident that the correct amount is maintained in savings accounts. Each liability account over \$500 has its individual file and all bank statements are kept in that file. We have attempted numerous times to correct this problem but it seems every time we do what we are instructed to do, the problem just gets worse. During the time the auditors were here, I faxed copies of all jv's, etc. to Martin Watts. I received an e-mail from him on March 16 which stated "I'm going to run a BR08 Liability Index report on your 500 accounts so I can get idea of FMS account

Marsha M. Tedesco

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balances. This will help me interpret your manual records." I haven't heard anything further from him, but will e-mail him today. I can assure you that I am still attempting to get this problem rectified.

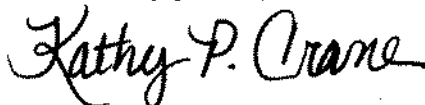
Apparently the unclaimed property and unclaimed restitution were contained in the same report and the accounting clerk failed to recognize this fact. She has now submitted amended reports and certainly will remember to separate the reports in the future.

We realize the importance of complying with all procedures.

It was a pleasure to work with Sue and Louise.

If you have any questions, please contact me.

Sincerely yours,

A handwritten signature in cursive script that reads "Kathy P. Crane". The signature is written in black ink and is positioned above the printed name.

Kathy P. Crane

